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Should You Pay Off Mortgage Debt with a Biweekly Refinance?

Paying off the mortgage early is a dream of many American homeowners. There are lots of different ways to get out from under the home loan burden sooner. One option is to refinance into a new mortgage with shorter terms. You may have heard about the biweekly mortgage loan. Before you sign on for this plan however, you should examine its pros and cons.

How it works

A biweekly mortgage is a variation on the traditional 30-year fixed home loan and it means you make a mortgage payment every two weeks instead of every month. This equals out to 26 payments per year. Each payment is about half the amount of what a normal monthly payment would have been. Essentially, you end up paying 13 months' worth of your mortgage each year instead of 12 months' worth. Your mortgage will then be paid off in about 23 years compared with 30 years on the conventional plan.

Pros

One of the obvious advantages of this plan is that you get out of debt sooner, and at the cost of only one extra payment a year. If you do not have the discipline to make that extra payment each year on your own, this is a good way to force yourself to do so.

The other great benefit is that you cut down on the total amount of interest you pay on your home loan. With a \$200,000 traditional 30-year fixed rate mortgage at 6 percent, you would end up paying \$231,676.38 over the course of the loan. For the same loan with a biweekly payment schedule, you would only pay \$184,394.08, a savings of \$47,282.30!

Cons

The disadvantage of the biweekly loan may simply be that you could achieve the same results with a better rate on a different type of loan. Paying biweekly does not change the interest rate on your loan. However, you could instead refinance into a 20-year loan and you might get an interest rate of 5.75 percent, compared with the 6 percent you would get on a 30-year biweekly loan. While you would end up paying about \$1200 more each year in mortgage payments, you would save \$47,394 in interest over the biweekly plan and \$94,676.3 in interest over the traditional 30-year mortgage!

Another disadvantage to the biweekly program is the lack of flexibility. You are locked into paying every two weeks to get that 13th payment in each year. You could simply go with a 30-year monthly plan and make an extra payment when you can and if things get rough financially you can forget about the extra payment for that year because you have the flexibility to do so.

Other Options

As mentioned, if you are looking for a better rate, you may want to simply consider a home loan refinance with a shorter term, say a 15-year or 20-year fixed loan. This will save you much more interest over time and get you out of debt faster, if you can afford the higher payment.



You could also stick with the 30-year plan and just make a larger payment each month according to your budget and ability. Most lenders will allow you to do this without a prepayment penalty, but you should check on the specifics first.

Paying off the mortgage early is a great way to save some money – just make sure to look at all the options before deciding on the right refinance loan for you.